

QUARTERLY REPORT

LICENSEE: ATLANTIC CITY SHOWBOAT, INC

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

**TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

BALANCE SHEETS

AS OF SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	ASSETS		
	Current Assets:		
1	Cash and Cash Equivalents.....	25,443	\$ 24,466
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2002, \$3,964 ; 2001, \$1,619).....NOTE 3	5,068	6,081
4	Inventories.....NOTE 1	1,567	2,326
5	Prepaid Expenses and Other Current Assets.....NOTE 4	2,810	3,196
6	Total Current Assets.....	34,888	36,069
7	Investments, Advances, and Receivables.....NOTES 5, 14 & 16	1,018,065	915,136
8	Property and Equipment - Gross.....	566,326	513,488
9	Less: Accumulated Depreciation and Amortization.....	(273,257)	(252,456)
10	Property and Equipment - Net.....	293,069	261,032
11	Other Assets.....NOTES 1 & 6	237,443	2,510
12	Total Assets.....	\$ 1,583,465	\$ 1,214,747
	LIABILITIES AND EQUITY		
	Current Liabilities:		
13	Accounts Payable.....	3,883	3,923
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other.....	184	-
17	Income Taxes Payable and Accrued.....	300	-
18	Other Accrued Expenses.....NOTE 7	33,138	31,403
19	Other Current Liabilities.....	727	615
20	Total Current Liabilities.....	38,232	35,941
	Long-Term Debt:		
21	Due to Affiliates.....NOTE 9	715,000	715,000
22	Other.....	634	848
23	Deferred Credits.....NOTE 16	15,843	19,884
24	Other Liabilities.....NOTES 1 & 8	760,231	389,303
25	Commitments and Contingencies.....NOTE 15		
26	Total Liabilities.....	1,529,940	1,160,976
27	Stockholders', Partners', or Proprietor's Equity.....	53,525	53,771
28	Total Liabilities and Equity.....	\$ 1,583,465	\$ 1,214,747

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	Revenue:		
1	Casino.....	\$ 276,821	\$ 263,674 **
2	Rooms.....	13,655	11,843
3	Food and Beverage.....	37,456	32,171
4	Other.....	5,515	5,232
5	Total Revenue.....	333,447	312,920
6	Less: Promotional Allowances.....	75,520	69,612
7	Net Revenue..... NOTE 1	257,927	243,308
	Costs and Expenses:		
8	Cost of Goods and Services.....	141,606	140,069 **
9	Selling, General, and Administrative.....	26,230	28,204
10	Provision for Doubtful Accounts.....	618	959
11	Total Costs and Expenses.....	168,454	169,232
12	Gross Operating Profit.....	89,473	74,076
13	Depreciation and Amortization.....	20,102	17,732
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other..... NOTES 2, 10 & 11	12,497	32,465
16	Income (Loss) from Operations.....	56,874	23,879
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates..... NOTE 9	(43,363)	(43,292)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(3,479)	(601)
20	Nonoperating Income (Expense) - Net..... NOTE 12	522	602
21	Total Other Income (Expenses).....	(46,320)	(43,291)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	10,554	(19,412)
23	Provision (Credit) for Income Taxes..... Note 16	4,473	(7,804)
24	Income (Loss) Before Extraordinary Items.....	6,081	(11,608)
	Extraordinary Items (Net of Income Taxes -		
25	2002, \$; 2001, \$).....	-	-
26	Net Income (Loss).....	\$ 6,081	\$ (11,608)

** Amended to reflect Simulcast Win net of Commissions and fees.

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	Revenue:		
1	Casino.....	\$ 101,896	\$ 96,498 **
2	Rooms.....	5,481	4,802
3	Food and Beverage.....	14,342	12,477
4	Other.....	2,237	2,147
5	Total Revenue.....	123,956	115,924
6	Less: Promotional Allowances.....	29,307	27,218
7	Net Revenue.....	94,649	88,706
	Costs and Expenses:		
8	Cost of Goods and Services.....	51,791	48,269 **
9	Selling, General, and Administrative.....	7,608	11,373
10	Provision for Doubtful Accounts.....	55	517
11	Total Costs and Expenses.....	59,454	60,159
12	Gross Operating Profit.....	35,195	28,547
13	Depreciation and Amortization.....	6,406	5,831
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....NOTES 2, 10 & 11	4,207	15,129
16	Income (Loss) from Operations.....	24,582	7,587
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	(14,454)	(14,428)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(1,651)	(218)
20	Nonoperating Income (Expense) - Net.....	215	197
21	Total Other Income (Expenses).....	(15,890)	(14,449)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	8,692	(6,862)
23	Provision (Credit) for Income Taxes.....Note 16	3,860	(2,758)
24	Income (Loss) Before Extraordinary Items.....	4,832	(4,104)
	Extraordinary Items (Net of Income Taxes -		
25	2002, \$; 2001, \$).....	-	-
26	Net Income (Loss).....	\$ 4,832	\$ (4,104)

** Amended to reflect Simulcast Win net of Commissions and Fees.

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2001 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2002

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2000.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (5,113)	\$ 65,379
2	Net Income (Loss) - 2001.....							(17,935)	(17,935)
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6									
7									
8									
9									
10	Balance, December 31, 2001.....	1,500	70,492	-	-	-	-	(23,048)	47,444
11	Net Income (Loss) - 2002.....							6,081	6,081
12	Contribution to Paid-in -Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15	1999 Income Tax Adjustment.....								
16									
17									
18									
19	Balance, June 30, 2002.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (16,967)	\$ 53,525

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 41,835	\$ 24,538
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....		
3	Proceeds from the Sale of Short-Term Investment Securities.....		
4	Cash Outflows for Property and Equipment.....	(45,734)	(19,610)
5	Proceeds from Disposition of Property and Equipment.....	62	166
6	Purchase of Casino Reinvestment Obligations.....	(3,222)	(2,732)
7	Purchase of Other Investments and Loans/Advances made.....		
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....		
9	Cash Outflows to Acquire Business Entities.....		
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(48,894)	(22,176)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....		
14	Payments to Settle Short-Term Debt.....	(2)	
15	Cash Proceeds from Issuance of Long-Term Debt.....		
16	Costs of Issuing Debt.....		
17	Payments to Settle Long-Term Debt.....	(126)	
18	Cash Proceeds from Issuing Stock or Capital Contributions.....		
19	Purchases of Treasury Stock.....		
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	(128)	-
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	(7,187)	2,362
25	Cash and Cash Equivalents at Beginning of Period.....	32,630	22,104
26	Cash and Cash Equivalents at End of Period.....	\$ 25,443	\$ 24,466

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ -	\$ -
28	Income Taxes.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the Notes.

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(UNAUDITED)
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ 6,081	\$ (11,608)
	Noncash Items Included in Income and Cash Items		
	Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	20,102	17,731
31	Amortization of Other Assets.....	340	340
32	Amortization of Debt Discount or Premium.....		
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	(5,353)	(2,211)
35	(Gain) Loss on Disposition of Property and Equipment.....	(62)	22
36	(Gain) Loss on Casino Reinvestment Obligations.....	3,479	601
37	(Gain) Loss from Other Investment Activities.....		
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	725	(47)
39	Net (Increase) Decrease in Inventories.....	793	(196)
40	Net (Increase) Decrease in Other Current Assets.....	(1,070)	(10)
41	Net (Increase) Decrease in Other Assets.....	(235,599)	(268)
42	Net Increase (Decrease) in Accounts Payable.....	(1,440)	(213)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(2,012)	(4,834)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	331,046	116,383
45	Net (Increase) Decrease in Invest., Advances, and Receivables.....	(75,195)	(91,152)
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 41,835	\$ 24,538

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 45,734	\$ 20,622
49	Less: Capital Lease Obligations Incurred.....		1,012
50	Cash Outflows for Property and Equipment.....	\$ 45,734	\$ 19,610
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows to Acquire Business Entities.....	\$	\$
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$	\$
58	Less: Issuances to Settle Long-Term Debt.....		
59	Consideration in Acquisition of Business Entities.....		
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$	\$

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT

AMENDED
9/12/03

SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	157,945	\$ 11,933		
2	Food	1,420,313	18,392		
3	Beverage	5,199,766	7,210		
4	Travel			5,420	949
5	Bus Program Cash	672,621	9,220		
6	Other Cash Complimentaries	1,145,232	26,736	-	-
7	Entertainment	21,401	638		
8	Retail & Non-Cash Gifts				
9	Parking	665,772	1,332		
10	Other	6,780	59	13,618	1,021 *
11	Total	9,289,830	\$ 75,520	19,038	\$ 1,970

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	64,103	\$ 4,987		\$ -
2	Food	524,337	7,021		
3	Beverage	1,928,410	2,693		
4	Travel			1,610	282
5	Bus Program Cash	246,514	3,362		-
6	Other Cash Complimentaries	446,786	10,292	-	-
7	Entertainment	14,389	432		
8	Retail & Non-Cash Gifts				
9	Parking	246,774	493		
10	Other	2,972	27	5,553	416 *
11	Total	3,474,285	29,307	7,163	\$ 698

*Included in the other Promotional Expenses is the cost of Cigarette and Cigar complimentaries in the amount of \$140,000.

*Included in the other Promotional Expenses is the cost of Invited Guest Gifts in the amount of \$93,000.

*No other individual complimentary service or item within the "Other" category exceeds 5% of that column's total.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(1) Summary of Significant Accounting Policies

Nature of Operations

Atlantic City Showboat, Inc. (the Company), is a wholly owned subsidiary of Ocean Showboat, Inc. (OSI), which is a wholly owned subsidiary of Showboat, Inc. (SBO). SBO is a wholly owned subsidiary Harrah's Operating Company, Inc. (HOC), which is a wholly owned subsidiary of Harrah's Entertainment, Inc. and Subsidiaries (HARRAH'S). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey (Atlantic City Showboat).

On June 1st, 1998, HARRAH'S, a Delaware corporation, purchased SBO and its subsidiaries.

Omission of Disclosures

In accordance with the Financial Reporting guidelines provided by the Casino Control Commission (the "CCC"), the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Quarterly Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations and certain Income Tax disclosures.

Revenue Recognition

Casino revenues consist of the net win from gaming activities, which is the difference between gaming wins and losses. Revenues from hotel and other services are recognized at the time the related services are performed.

Promotional Allowances

Gross revenues include the retail value of complimentary food, beverage, theater and hotel services furnished to patrons. The retail value of these promotional allowances is deducted to arrive at net revenues. As more fully disclosed in the paragraph "Recent Accounting Pronouncements" promotional allowances have been expanded to include cash rebates. The estimated cost of providing complimentary services and cash rebates to customers for the nine months ended September 30 2002 and 2001, respectively, were as follows:

	<u>2002</u>	<u>2001</u>
Food and Beverage	\$21,564	\$18,178
Rooms	9,297	8,783
Other	3,333	2,480
Bus Program Cash	9,220	10,927
Other Cash Complimentaries	<u>26,736</u>	<u>25,734</u>
	<u>\$68,834</u>	<u>\$64,786</u>

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less, at the time of purchase, to be cash equivalents.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Inventories

Inventories of provisions and supplies are valued at the lower of cost (weighted average basis) or market.

Financial Instruments

The carrying amount of cash equivalents, receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority (CRDA) bonds and deposits approximately indicate their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates.

Property and Equipment

Property and Equipment is carried at cost. Depreciation including amortization of capitalized leases is computed using the straight-line method. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Estimated useful lives for Property and Equipment are 5 to 15 years for Land Improvements, 10 to 40 years for buildings and 3 to 10 years for furniture and equipment.

Income Taxes

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date.

The Company is included in the consolidated federal income tax group of HARRAH'S. Accordingly, income taxes are allocated based on the separate return method except that tax benefits available to the Company are recognized when generated by the Company to the extent utilized by the group, including carrybacks.

Deferred Financing Cost

Costs associated with the issuance of debt have been deferred and are being amortized to interest expense over the life of the related indebtedness using the straight-line method that approximates the effective interest method.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Long-lived Assets

The provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" requires, among other things, that an entity review its long lived assets and certain related intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The assessment for potential impairment is based primarily on the Company's ability to recover the unamortized balance of its long-lived assets from expected future cash flows from its operations on an undiscounted basis. The Company is not aware of any events or changes in circumstances that indicate that the carrying amount of any asset may be impaired.

Accounting Estimates

The preparation of these financial statements in conformity with generally accepted accounting principals requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The Company provides an allowance for doubtful accounts arising from casino, hotel and other services, which is based upon a specific review of certain outstanding receivables and historical collection performance. In determining the amount of the allowance, the Company is required to make certain estimates and assumptions and actual results may differ from those assumptions.

Recent Accounting Pronouncements

In January 2001, the Emerging Issues Task Force ("EITF") reached a consensus on certain issues within Issue No. 00-22, "Accounting for 'Points' and Certain other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free products or Services to be Delivered in the Future" (EITF 00-22"). Application of EITF 00-22 is required for all interim and annual periods ending after February 15, 2001. EITF 00-22 requires volume-based cash rebates to be classified as a reduction of revenue. Accordingly, such rebates have been classified as promotional allowances. The Company previously classified these expenditures as gaming expense. Approximately \$35,956 and \$36,661 were reclassified from casino expenses to promotional allowances for the nine months ended September 30 2002 and 2001, respectively.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). This standard addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The standard is effective for fiscal years beginning after June 15, 2002. The Company's management does not expect the adoption of SFAS 143 to have a material impact on the Company's financial results.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). This standard addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The standard is effective for fiscal years beginning after December 15, 2001. The Company's management does not expect the adoption of SFAS 144 to have a material impact on the Company's financial results.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Recent Accounting Pronouncements (Cont)

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") effective January 2002. This standard provides new guidance regarding the recognition and measurement of intangible assets, eliminates the amortization of certain intangibles and requires annual assessments for impairment of intangible assets that are not subject to amortization. Early adoption for acquisitions prior to June 2001 was not allowed.

SFAS No. 142 was adopted by HET effective January 1, 2002. The detailed accounting entries necessary at the operating unit level were completed in the second quarter of 2002. The Company previously held these assets on the HET books. Prior to the accounting entries, the balance on the Company's books for Goodwill and Trademarks was zero, after the adoption of SFAS No 142, the balance of Goodwill and Trademarks on the Company's books was \$174,071 and \$61,271 respectively.

(2) Related Party Transactions

In 1999 the Company entered into a new license agreement with SBO for the use of certain trademarks. In 2001 the Company entered into a five-year license agreement with Harrah's Las Vegas Inc. ("HLV") for the use of certain program and related trademarks. On July 31, 2002, The Company amended these agreements, effective January 1, 2002, to provide that no royalty and other related payments are due to SBO or HLV. Accordingly, The Company recognized a one time credit of \$11,236 in the quarter ending June 30, 2002. As of the three months and nine months ending September 30, 2001, the Company incurred trademarks & royalty related expenses of \$6,742 and \$20,225 respectively. As a result of the 2002 amendments, the Company is no longer required to pay an annual fee under either agreement.

The Company is charged a fee from HOC for administrative services (including executive, financial, information technology, legal, marketing, and tax planning and compliance). The Company was charged \$4,621 and \$4,448 for the nine months ended September 30 2002 and 2001, respectively, for these services.

As more fully disclosed in Note 5, the Company provides services for HARRAH'S and transfers cash in excess of its operating needs to HARRAH'S on a daily basis. As more fully disclosed in Note 8, services are provided by HARRAH'S and cash is transferred from HARRAH'S to the Company based upon the needs of the Company to fund daily operations. No interest is paid or (earned) on the amount shown as Due To (From) Affiliates in the accompanying statements.

As more fully disclosed in Note 9, the Company has Intercompany Promissory notes payable totaling \$715,000.

As more fully disclosed in Note 10, the Company leases land from a subsidiary of SBO.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(3) Receivables

As of September 30, 2002 and 2001, Receivables consisted of the following:

	<u>2002</u>	<u>2001</u>
Casino	\$6,179	\$4,847
Hotel	152	321
Due from CRDA	0	168
Other	<u>2,701</u>	<u>2,364</u>
	9,032	7,700
Less allowance for doubtful accounts	<u>3,964</u>	<u>1,619</u>
	<u>\$5,068</u>	<u>\$6,081</u>

(4) Prepaid Expenses & Other Current Assets

As of September 30, 2002 and 2001, Prepaid Expenses and Other Current Assets consisted of the following:

	<u>2002</u>	<u>2001</u>
Prepaid Slot License	\$1,324	\$1,261
Prepaid Insurance	51	33
Deposits	202	236
Prepaid Rent	0	0
Prepaid Contracts/Utilities	255	0
Other	<u>978</u>	<u>1,666</u>
	<u>\$2,810</u>	<u>\$3,196</u>

(5) Investments, Advances & Receivables

As of September 30, 2002 and 2001, Investments, Advances and Receivables consisted of the following:

	<u>2002</u>	<u>2001</u>
CRDA Deposits (Note 13)	\$17,151	\$15,687
CRDA Bonds (Note 13)	<u>10,704</u>	<u>8,204</u>
	<u>27,855</u>	<u>23,891</u>
Less: Valuation Allowance on CRDA		
Investments	<u>(8,882)</u>	<u>(6,170)</u>
CRDA Investments, Net	18,973	17,721
Due From Affiliates	<u>999,092</u>	<u>897,415</u>
	<u>\$1,018,065</u>	<u>\$915,136</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(5) Investments, Advances & Receivables (Cont)

Due From Affiliates consisted of the following:

	<u>2002</u>	<u>2001</u>
HARRAH'S	\$997,741	\$894,650
Showboat Operating Company	0	11
Harrah's Atlantic City	985	2,265
Showboat Indiana	14	135
Harrah's New Orleans	0	2
Harrah's Lake Tahoe	22	22
Harrah's Joliet	8	0
Harrah's Ak-Chin	290	290
Harrah's Metropolis	0	8
Harrah's North Kansas City	<u>32</u>	<u>32</u>
	<u>\$999,092</u>	<u>\$897,415</u>

(6) Other Assets

As of September 30, 2002 and 2001, Other Assets consisted of the following:

	<u>2002</u>	<u>2001</u>
Goodwill, net of accumulated amortization	174,071	0
Trademark, net of accumulated amortization	61,271	0
Debt Issuance Cost, net of accumulated amortization	1,915	2,255
Other	<u>186</u>	<u>255</u>
Total	<u>237,443</u>	<u>2,510</u>

As more fully disclosed in Note 1, Recent Accounting Pronouncements, the Company has adopted SFAS No. 142 and the detailed entries necessary to reclass Goodwill and Other Intangible Assets were completed in the second quarter 2002.

(7) Accrued Liabilities

As of September 30, 2002 and 2001, Other Accrued Expenses consisted of the following:

	<u>2002</u>	<u>2001</u>
Salaries and Wages	\$6,286	\$5,223
Taxes, Other Than Taxes on Income	1,455	1,998
Accrued Advertising and Promotion	1,585	515
Accrued Interest	17,661	17,661
Warehouse Lease	0	138
Other	<u>6,151</u>	<u>5,868</u>
	<u>\$33,138</u>	<u>\$31,403</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(8) Other Liabilities

As of September 30, 2002 and 2001, Other Liabilities consisted of the following:

	<u>2002</u>	<u>2001</u>
Due to Affiliates, Long-Term	\$759,812	\$389,103
Other	<u>419</u>	<u>200</u>
	<u>\$760,231</u>	<u>\$389,303</u>

Due To Affiliates consisted of the following:

	<u>2002</u>	<u>2001</u>
HARRAH'S	\$367,020	\$260,553
SBO	381,693	125,180
Harrah's Las Vegas	6,437	211
Harrah's Laughlin	0	5
Harrah's Reno	14	14
Harrah's Tunica	12	10
Harrah's Illinois	0	21
Rio Las Vegas	83	85
OSI	38	38
Harrah's Atlantic City	3,647	2,458
Showboat Operating Company	<u>868</u>	<u>528</u>
	<u>\$759,812</u>	<u>\$389,103</u>

(9) Long Term Debt, Due to Affiliates

As of September 30, 2002 and 2001 Long-Term Debt, Due to Affiliates consisted of the following:

	<u>2002</u>	<u>2001</u>
9 ¼ % Promissory Note - Due 2008	\$215,000	\$215,000
7 ½ % Promissory Note - Due 2009	<u>500,000</u>	<u>500,000</u>
Total Long Term Debt	<u>\$715,000</u>	<u>\$715,000</u>

On May 18, 1993, SBO issued \$275,000 of 9 1/4% First Mortgage Bonds due 2008 (9 ¼ % Bonds) and subsequently loaned approximately \$215,000 of the proceeds to the Company evidenced by an intercompany promissory note with terms and conditions consistent with those of the 9 ¼% Bonds.

Subsequent to the acquisition of SBO by HARRAH'S on June 1, 1998, HARRAH'S completed tender offers and consent solicitations for SBO's 9 ¼ Bonds. As a result of the receipt of the requisite consents, HARRAH'S eliminated or modified substantially all of the negative covenants, certain events of default and made other changes to the respective indentures governing the 9 ¼ Bonds. The Company's intercompany promissory note with SBO remained unchanged.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(9) Long Term Debt, Due to Affiliates (Cont)

On January 15, 1999 the Company entered into a \$500,000 intercompany promissory note with HOC.

For value received, the Company promises to pay HOC the principal sum of \$500,000 on January 15, 2009 and to pay interest thereon at the rate of 7 ½ % per annum. Payments of interest shall be made semiannually on January 15 and July 15 of each year, commencing July 15, 1999, and shall be calculated on the basis of a 360-day year.

Interest payments related to long-term debt are included in the Amounts Due to Affiliates.

(10) Leases

The Company leases a warehouse under a long-term lease agreement that is capitalized as a capital lease. The Company has the option to purchase the warehouse from January 1, 2006 through March 31, 2006 at an option price of approximately \$1,928.

The Company leases 10 1/2 acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which are payable monthly, commenced upon opening of the Atlantic City Showboat. The rent is adjusted annually based upon changes in the Consumer Price Index. In April 2002, the annual rent increased \$141 to \$10,107. The Company is responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the nine months ended September 30 2002 and 2001, was \$7,545 and \$7,401 respectively.

(11) Stock Plans

HARRAH'S has various incentive plans under which restricted shares or stock options may be granted to key employees of the Company. Compensation expense of \$331 and \$392 was recognized for the nine months ended September 30, 2002 and 2001, respectively.

(12) Non-operating Income (Expense)

For the nine months ended September 30 2002 and 2001, Non-Operating Income (Expense) consisted of the following:

	<u>2002</u>	<u>2001</u>
Interest Income	\$460	\$624
Gain (Loss) on Disposal of Property & Equipment	<u>62</u>	<u>(22)</u>
	<u>\$522</u>	<u>\$602</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(13) Employee Benefit Plans

The Company maintains a retirement and savings plan for eligible employees who are not covered by a collective bargaining agreement. Under the terms of the plan adopted on July 1, 1999, eligible employees may defer up to 6% of their compensation, as defined, of which 100% of the deferral is matched by the Company. Eligible employees may contribute an additional 10% of their compensation, which will not be matched by the Company. Amounts contributed by the Company vest over a five-year period. The Company contributed \$1,567 and \$1,730 to this plan for the nine months ended September 30 2002 and 2001, respectively.

The Company's union employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Contributions are generally determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. Contributions to the plans were \$686 and \$575 during the nine months ended September 30, 2002 and 2001, respectively.

(14) New Jersey Investment Obligation

The New Jersey Casino Control Act (Act) provides, among other things, for an assessment on a gaming licensee equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be used to purchase bonds designated by the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates.

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. As more fully disclosed in Note 5, at September 30, 2002 and 2001, Investments, Advances, and Receivables include \$18,973 and \$17,721 respectively, representing the Company's bond purchases and deposits with the CRDA, net of the valuation allowance. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

The Company was eligible to receive approximately \$11,500 in funding credits reserved by the CRDA, as a result of the completion of the hotel expansion program at the Atlantic City Showboat, completed in 1994. In December 2001, the Company received the final distribution of the funding credits.

In December 1999 the CRDA approved a credit exchange agreement between the Company and Harrah's Atlantic City (HAC). The CRDA approved an exchange of \$4,628 of HAC South Jersey Future Obligations from the Company's Atlantic City Housing Current Obligations. The exchange was implemented by the immediate transfer of \$4,628 from the Company's Atlantic City Housing Obligations to HAC. In accordance with the exchange agreement, \$4,628 of HAC South Jersey Future Obligations shall be transferred back to the Company's South Jersey Current Obligations upon payment by HAC of such Obligations received by the CRDA on future Quarterly Payment Dates.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(15) Commitments and Contingencies

Litigation

The Company is a party in various legal proceedings with respect to the conduct of its operations. Although a possible range of loss cannot be estimated, in the opinion of management, settlement or resolution of the proceedings should not have a material adverse impact on the financial position or results of operations of the Company.

License Renewal

During January 2001, the New Jersey Casino Control Commission (the "CCC") renewed the Company's license to operate its casino hotel complex in Atlantic City. A casino license is not transferable, and must be renewed every four years by filing an application which must be acted upon by the CCC no later than 30 days prior to the expiration of the license then in force.

(16) Restatement of Prior Year Financial Statement

For the nine months ending September 30, 2001 the Statement of Income has been restated to include an income tax benefit of \$7,804. Additionally, Due From Affiliates was increased \$5,593 representing the impact on current income taxes payable and the Deferred Tax Liability Account was charged \$2,211 representing the impact on the Deferred Tax balance.

For the nine months ending September 30, 2002 the Statement of Income has been restated to include an income tax expense of \$3,473. Additionally Due From Affiliates was charged \$7,350 representing the impact on the current income taxes payable and the Deferred Tax Liability Account was charged \$3,877 representing the impact on the Deferred Tax balance.

Prior to the restatement income tax expense (benefit) was only determined on an annual basis. The September 30, 2001 restatement was arrived at by taking the annual provision and allocating it using a formula that considered taxable income through September 2001 and the annual effective tax rate.

STATEMENT OF CONFORMITY, ACCURACY AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature - Michael J. Walsh

Vice President of Finance & Admin.

Title

1482-11

License Number

On Behalf Of:

Atlantic City Showboat, Inc.

Casino Licensee